

Message Text

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ACTION EUR-25

INFO OCT-01 IO-13 ADP-00 AF-10 ARA-16 EA-11 NEA-10 RSC-01

OPIC-12 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00 EB-11

FRB-02 H-02 INR-10 INT-08 L-03 LAB-06 NSAE-00 NSC-10

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USIA WASHDC

AMEMBASSY COPENHAGEN

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AMEMBASSY LUXEMBOURG

AMEMBASSY BRUSSELS UNN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY LONDON

AMEMBASSY BONN

USMISSION OECD PARIS

USMISSION GENEVA

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E.O. 11652: N/A

TAGS: PFOR

SUBJECT: AGENCE EUROPE EDITORIAL

1. JULY 11 EDITORIAL BY CHIEF EDITOR EMANUELE
GAZZO IN RESPECTED AGENCE EUROPE ARGUES AGAINST
SIMPLISTIC CLAIM THAT RECENT FALL IN DOLLAR EXCHANGE
RATE REDUCES IMPORTANCE OF RECIPROCAL TRADE
NEGOTIATIONS. WHILE SOME ELEMENTS GAZZO'S STATEMENT
MAY BE QUESTIONABLE, WE BELIEVE HIS MAIN THESIS VALID.
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FOLLOWING IS VERBATIM GAZZO TEXT: (BEGIN TEXT)

(BEGIN UNCLASSIFIED)

EDITORIAL

MONETARY DISORDER AND TRADE

THE DECLARATIONS CONTAINED IN PARAGRAPH 5 OF THE EXPOSE OF THE MOTIVES BEHIND THE EEC'S GENERAL CONCEPT WITH REGARD TO THE GATT TRADE NEGOTIATIONS (SEE EUROPE/DOCUMENTS NO.750) ACCORDING TO WHICH IT IS NECESSARY TO MAKE MOVES PARALLEL TO THE NEGOTIATIONS (SEE EUROPE/DOCUMENTS NO. 750) ACCORDING TO WHICH IT IS NECESSARY TO MAKE MOVES PARALLEL TO THE NEGOTIATIONS IN QUESTION TOWARDS THE "SETTING UP OF A JUST AND LASTING MONETARY SYSTEM" ARE OFTEN INTERPRETED IN A SIMPLISTIC FASHION, A FACT WHICH NATURALLY HAS A FAR GREATER EFFECT ON THE MINDS OF A POORLY INFORMED PUBLIC. IN OTHER WORDS THERE IS A TENDENCY TO STATE OR GIVE THE IMPRESSION THAT FURTHER DEVALUATIONS OF THE DOLLAR WOULD MAKE THE SO-CALLED NIXON ROUND TRADE NEGOTIATIONS USELESS BECAUSE AMERICAN EXPORTS WOULD BENEFIT FROM INCREASED COMPETITIVENESS WHICH WOULD CANCEL OUT THE ADVANTAGES WHICH EUROPE (AND THE UNITED STATES' OTHER TRADING PARTNERS) WOULD GAIN FROM A LOWERING OF CUSTOMS BARRIERS. FROM THIS POINT IT IS A SHORT STEP TO "THREATENING" NOT TO HOLD THE NIXON ROUND AND CERTAIN PARTIES BELIEVED THEY COULD MAKE THIS STEP.

ONE MIGHT WONDER JUST HOW SERIOUS AND WELL-FOUNDED SUCH A THREAT ACTUALLY IS. FIRST OBSERVATION: THE TRADE NEGOTIATIONS DO OFFER -AS IS THEIR BASIC OBJECTIVE- RECIPROCAL ADVANTAGES. NOT TO NEGOTIATE IN THE CASE OF A DEVALUATION OF THE DOLLAR CONSEQUENTLY MEANS ACCEPTING ALL THE DISADVANTAGES OF SUCH A DEVALUATION AND GIVING UP THE ADVANTAGES OFFERED BY A LOWERING OF BARRIERS (AND AS AMERICAN CUSTOMS BARRIERS ARE HIGHER THAN EUROPEAN ONES, WE WOULD BE LOSING A RELATIVELY GREATER ADVANTAGE.) SECOND OBSERVATION: THE VERY FACT THAT A LIMITED OFFICIAL USE

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CURRENCY UNDERGOES A REVALUATION OR A DEVALUATION ACCORDING TO THE JUDGEMENT OF THE MARKET APPARENTLY HAS THE SOLE EFFECT OF CURING AN UNHEALTHY SITUATION. CONSEQUENTLY IT WOULD NOT BE LOGICAL OR POSSIBLE TO OPPOSE SUCH OPERATIONS. IT IS OBVIOUS THAT THE FLOW IN TRADE AND THE CHANGE IN THE VALUE OF CURRENCIES ARE TWO PHENOMENA WHICH ARE CLOSELY LINKED TOGETHER (ALTHOUGH THE EUROPEAN COUNTRIES HAVE ALWAYS DENIED

THIS LINK, SEE LENGTHY DISCUSSION BY REY COMMITTEE OF THE OECD). ON THE OTHER HAND, IF THE DISMANTLING OF TARIFF BARRIERS WERE TO BE SYSTEMATICALLY TIED TO UNDERTAKINGS REGARDING MONETARY STABILITY, THERE WOULD BE NO MORE NEGOTIATIONS ON TARIFFS. LET US MERELY RECALL, MOREOVER, THE MONETARY DEVALUATIONS AND MANIPULATIONS WHICH TOOK PLACE AFTER THE DILLON ROUND AND THE KENNEDY ROUND. AND WHAT IS MORE NO-BODY CALLED INTO QUESTION THE RECIPROCAL TARIFF REDUCTIONS WHICH WERE INTRODUCED. FURTHERMORE, THE I. M. F. OFFERED A MEANS OF PROTECTION AGAINST "SUDDEN DEVALUATIONS."

THE DANGER OF THIS SITUATION IS THAT THE "THREAT" WHICH IS TALKED ABOUT MIGHT BE TAKEN SERIOUSLY. THUS NOTHING WOULD STOP THE AMERICANS FROM ALLOWING THE DOLLAR TO FALL IN ORDER TO ASSURE CONSIDERABLE ADVANTAGES FOR THEMSELVES ON THE EXPORT MARKETS (AND EVEN MORE SO IN THAT THE MAJORITY OF THEIR IMPORTS ARE CARRIED OUT IN TERMS OF DOLLARS AND HENCE THEY WOULD NOT UNDERGO AN INCREASE IN COSTS).

THE PROBLEM IS THEREFORE NOT A QUESTION OF KNOWING WHETHER THE DOLLAR MAY OR MAY NOT BE REVALUED BUT OF KNOWING WHETHER A SYSTEM OF FLOATING EXCHANGE RATES IS TO BE RETAINED - WHICH DOES NOT INCLUDE THE OBLIGATION TO SUPPORT ONE'S OWN CURRENCY, THE EVALUATION OF WHICH IS LEFT TO THE MARKET, THAT IS SPECULATION -OR SHOULD IT BE DESIRABLE TO INTRODUCE A SYSTEM WHICH IMPOSES DISCIPLINES -LIKE THAT OF BRETTON WOODS - ONE IN WHICH - IN CONTRAST TO THAT OF BRETTON WOODS - "SYMMETRY" OF OBLIGATIONS LIMITED OFFICIAL USE

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IS IMPOSED.

PARADOXICALLY, THE EUROPEANS ARE ACTING AS IF THEY ARE WISHING FOR THE DOLLAR TO TAKE UP ONCE AGAIN ITS ERSTWHILE ROLE OF EXCHANGE STANDARD WHILST THE AIM IS PRECISELY TO ABOLISH THIS PRIVILEGE. WE SHALL RETURN TO THIS QUESTION. (END TEXT) (END UNCLASSIFIED).
GREENWALD

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